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## Thailand

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### FAS-BKK Forecast of Palm Oil Shortfall Turns Out

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Oilseeds and Products

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**Report Highlights:**

On August, 2010, FAS/Bangkok forecasted that Thailand would encounter insufficient palm oil supplies (See GAIN report (TH0114)) if it didn't change its import regime on palm oil and if the Thai Government remained steadfast in requiring compulsory use of B5. It didn't take long for this forecast to pan out, as tight supplies prompted the Cabinet to authorize imports of 30,000 metric tons of crude palm olein for January and another 120,000 metric tons for February. Additionally, the Ministry of Energy interceded in postponing the full implementation of its biodiesel policy by delaying the compulsory use of B5 indefinitely and has also requested petroleum oil refineries to adjust their B3 production to B2 during March-April 2011.

## Executive Summary

FAS/Bangkok forecasted in August 2010 (see GAIN report (TH0114)) that Thailand would encounter insufficient palm oil supplies if the Government didn't change its import regime for palm oil and if it remained steadfast in requiring compulsory use of B5. This forecast became a reality by late 2010 when it was obvious that supplies were quite tight, however the Cabinet did not react until January 11, 2011 by allowing the importation of 30,000 MT of crude palm olein. However, this effort fell short to relieve the tight supplies, which acutely manifested itself in early February when bottled cooking palm oil disappeared from market shelves and actual spot prices were 60 percent above controlled retail prices. This prompted the cabinet to approve additional import of 120,000 MT on February 8, 2011.

In addition, the Ministry of Energy agreed to postpone the compulsory use of B5 until palm oil supplies are sufficient, and has also requested petroleum oil refineries to adjust their B3 production to B2 during March-April 2011.

## A Shortfall in Local Supplies and Rocketing Prices

By September of 2010, the palm oil industry became increasingly aware of the short fall in domestic palm oil production when deliveries of palm fresh fruits dropped sharply. This trend continued throughout the last quarter of 2010 (Oct-Dec), worsening the shortage situation. Hobbled production was attributed to extreme weather conditions in the South, the country's main palm area, very dry conditions in early 2010 and flooding in late 2010. However, both the Ministries of Commerce and Energy were unlikely to be aware due to the optimistic official monthly estimate of fresh palm production reported by the Office of Agricultural Economics (OAE), of the Ministry of Agriculture and Cooperatives.

The figures below indicate a huge discrepancy in the OAE estimates and actual CPO production that CPO crushers reported to Department of Internal Trade, Ministry of Commerce.

Figure 1: Actual CPO Production and OIE's Estimates on FFB and CPO Production in 2010

	January	February	March	April	May	June	July	August	September	October	November	December	Total
<b>CPO Production reported to DIT/MOC</b>	95,083	118,567	144,809	130,154	137,485	127,236	126,220	112,454	98,838	84,531	67,524	49,608	1,287,509
<b>OIE Estimates:</b>													
<b>Fresh Fruit Bunches</b>													
<b>(FFB) Production</b>	612,367	750,698	950,603	870,472	856,977	820,707	727,924	640,202	557,541	484,158	571,880	591,280	8,434,809
<b>CPO Production</b>	104,102	127,619	161,603	147,980	145,686	139,520	123,747	108,834	94,782	82,307	97,220	100,518	1,433,918
<b>Amount of Actual CPO</b>													
<b>Production Deviated from OIE Estimates</b>	-9,019	-9,052	-16,794	-17,826	-8,201	-12,284	2,473	3,620	4,056	2,224	-34,696	-50,910	-146,409

Without the proper awareness, the Government continued its B3 compulsory use which was implemented in June 2010 and sustained its import regime which made the imports of palm oil impossible.

Reflecting vivid shortfall appearance, prices for fresh fruits and palm oil began escalating across the

board. The Department of Internal Trade (DIT) reported that fresh fruit bunches (FFB) prices increased from 5.33 baht/kg (\$174/ton) to 7.40 baht/kg (\$243/ton) in December 2010 and further rocketed to 9.27 baht/kg (\$304/ton). Meanwhile, wholesale prices for crude palm oil (CPO) rose from 27.95 baht/kg (\$916/ton) in September 2010 to 43.80 baht/kg (\$1,436/ton) in December and 58.20 baht/kg (\$1,908/ton) in January 2011, an overall increase of 108 percent. Retail prices for cooking palm oil in Bangkok, reported by Department of Internal Trade (DIT), also boosted in the same period, however, trade sources indicate that actual prices exceeded reported prices, increasing from 55-57 baht/kg in the first week of January 2011 to 75-76 baht/kg for the week of February 7-11. Currently, prices have declined to 58-62 baht/kg after the Cabinet approved additional imports of 120,000 tons of crude palm olein on February 8.

Cooking palm oil is a commodity under the Government's price control scheme which is set at 47.00 baht/liter at the retail level, which is much lower than producing it. This situation led to a market failure in January when some manufacturers suspended their cooking oil production, resulting in bottled oil palm disappearing from market shelves; moreover traders and household deepened the crisis by engaging in hoarding practices on rampant speculation concerns.

Figure 2: Prices for FFB, CPO, and Cooking Palm Oil in 2010-11

	<b>Fresh Fruit Bunches</b>		<b>Crude Palm Oil</b>		<b>Cooking Palm Oil</b>	
	<b>(Baht/Kg)</b>		<b>(Baht/kg)</b>		<b>(Baht/kg)</b>	
	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>
<b>January</b>	4.15	9.27	26.36	58.20	31.07	57.45
<b>February</b>	3.92		25.73		29.45	
<b>March</b>	3.87		25.92		30.21	
<b>April</b>	3.63		25.43		30.21	
<b>May</b>	3.80		25.66		30.11	
<b>June</b>	4.23		26.61		29.04	
<b>July</b>	4.35		25.38		29.07	
<b>August</b>	5.01		27.49		31.68	
<b>September</b>	5.22		27.95		32.27	
<b>October</b>	5.67		31.01		33.29	
<b>November</b>	6.70		38.91		42.09	
<b>December</b>	7.40		43.80		48.10	
<b>Average</b>	4.83	9.27	29.19	58.20	33.05	57.45

### Government's Initial Reaction: Too Little, Too Late

On January 11, 2011, the Thai Government agreed to import 30,000 MT of crude palm olein as proposed by Committee on National Oil Palm Policy and assigned the Public Warehouse Organization (PWO), an agency under Ministry of Commerce, to be the sole importer. The shipments of palm oil from Malaysia reportedly arrived in the last week of January, however the quantity was not sufficient to tamper the dwindling supplies. Therefore, the Committee on National Oil Palm Policy proposed that the Cabinet authorize imports of an additional 120,000 MT of crude palm olein within February, which the

Cabinet duly approved on February 8, 2011. The Committee expects that the situation should normalize in late March when the new-crop oil palm production would enter the market.

The Ministry of Energy also responded to the situation by equalizing prices for B3 with B5 by manipulating subsidy rates and marketing costs at the retail level for biodiesel price determination. Identical prices between B3 and B5 have encouraged consumers to thoroughly switch to B3. The Ministry unofficially postponed the compulsory use of B5, which was originally scheduled to be in place on January 1, 2011, until domestic palm oil supplies are sufficient. In addition, sources in the Ministry reported that the Ministry agreed this week to request petroleum oil refineries to adjust their B3 production to B2 during March-April 2011 in efforts to ease pressure on crude palm olein supplies.

### **Prospects for 2011**

Post strongly believes that the shortfall in 2011 will continue since Thailand will continue to struggle with irregular climate conditions which may hobble domestic palm production at the farm level. Prices for fresh fruits and palm oil will remain high as supplies will remain lower than expected. Under this scenario, the Government needs to allow additional imports throughout the year, and/or suspend the compulsory use of biodiesel to alleviate the shortfall problem and/or change its price control regime. Failure to address these issues will result in more shortages as the latest import of palm oil will be unable to restore market equilibrium.

End of Report.